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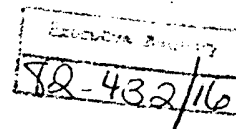
(Received 1130 11 May)

 Executive Secretary
5/11/82

Date



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230



MEMORANDUM FOR MARSHALL CASSE
ROOM 7250
DEPARTMENT OF STATE

HENRY NAU
ROOM 392
NATIONAL SECURITY COUNCIL
OLD EXECUTIVE OFFICE BUILDING

RALPH KORP
ROOM 5050
DEPARTMENT OF TREASURY

DENNIS WHITFIELD, EXECUTIVE ASSISTANT TO THE USTR
ROOM 209
UNITED STATES TRADE REPRESENTATIVE

ROGER PORTER, SPECIAL ASSISTANT TO THE PRESIDENT
FOR POLICY DEVELOPMENT
ROOM 235
OLD EXECUTIVE OFFICE BUILDING

RICK NYGARD
ROOM 8235
OFFICE OF MANAGEMENT AND BUDGET
NEW EXECUTIVE OFFICE BUILDING

JAMES BURNHAM, SPECIAL ASSISTANT TO THE CHAIRMAN
ROOM 315
COUNCIL OF ECONOMIC ADVISERS
OLD EXECUTIVE OFFICE BUILDING

ROBERT P. MEEHAM, ASSISTANT FOR INTERAGENCY MATTERS
ROOM 3E854
OFFICE OF THE SECRETARY
DEPARTMENT OF DEFENSE

RAYMOND LEFT, EXECUTIVE ASSISTANT TO THE SECRETARY
ROOM 200-A
DEPARTMENT OF AGRICULTURE

WILLIAM V. VITALE, DIRECTOR, OFFICE OF THE
EXECUTIVE SECRETARIAT
ROOM 7A 185
DEPARTMENT OF ENERGY



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THOMAS B. CORMACK, EXECUTIVE SECRETARY
ROOM 7E13
CENTRAL INTELLIGENCE AGENCY

CHARLES F. STEBBINS, EXECUTIVE ASSISTANT
TO THE CHAIRMAN
USAF 2E72
JOINT CHIEFS OF STAFF

FROM: Lionel H. Olmer
Under Secretary for International Trade

SUBJECT: ~~Versailles Summit: Clearance of Draft Briefing~~
~~Paper for President's Briefing Book for~~
~~June 4-6, 1982~~

~~Attached for your agency's clearance is the key issue paper on~~
~~R&D Investment prepared by the Department of Commerce for the~~
~~Summit. Please provide by May 10, any comments you may wish to~~
~~have incorporated into the final version to Jon Paugh 377-5853,~~
~~Room 3862 Main Commerce.~~

~~Attachment~~

RESEARCH AND DEVELOPMENT

I. ISSUE

While United States expenditures on research and development (R&D) as a share of real GDP exceed that of other countries, growth in R&D expenditures in the United States is lagging substantially behind Japan, Germany, and France. Many are concerned that --

- o unless U.S. expenditures on R&D grow more rapidly, the United States may lose its technological edge;
- o other countries' programs to encourage domestic R&D may give their firms an advantage over ours.

II. ESSENTIAL FACTS

The key to the United States approach to increasing R&D is a healthy economy stimulated by the President's Economic Recovery Program. Besides the general measures aimed at recovery, the program contains the following measures aimed specifically at stimulating private sector R&D:

- o a tax credit equal to 25 percent of incremental R&D expenses, and
- o three year write-off under the Accelerated Cost Recovery System for equipment used in R&D activities plus a six percent investment tax credit.

Existing government programs include basic research projects sponsored by NASA, NIH, and the Departments of Defense and Energy. (Defense also sponsors applied research projects.)

In the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Coordination and Development (OECD), the United States is pressing for studies of the impact of governments' policies on trade and investment in high technology industries. These studies should address the question of whether government subsidized or sponsored R&D distorts trade and investment in high technology industries:

III. TALKING POINTS

FRENCH APPROACH:

At the Summit, President Mitterrand is expected to present a proposal on technology, economics, and employment. It would include a coordinated international program of basic research.

U.S. RESPONSE:

Since for the most part the results of basic research in the United States are freely circulated, we do not believe that this international program is necessary. Further, the availability of USG funds for R&D is limited, and we prefer to use these funds to support the activities of U.S. research facilities. --



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

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MEMORANDUM FOR MARSHALL CASSE
SPECIAL ASSISTANT TO THE
UNDER SECRETARY OF STATE

FROM: Lionel H. Olmer
Under Secretary for International Trade

SUBJECT: Versailles Summit

Attached are the first cleared drafts of Commerce
assigned papers for the President's briefing book
for the Versailles Summit, June 4-6, 1982.

Attachments

*This Document is Automatically
Declassified when classified
enclosures are removed*



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CLASSIFIED BY Franklin J. Vargo

DECLASSIFY ON 5/5/88

~~CONFIDENTIAL~~

COUNTERTRADE

I. Issue

Many commercial transactions with communist, and to a lesser extent, developing countries, involve countertrade arrangements, in which exporters in separate but parallel contracts are required to accept products from the purchaser in partial or total payment for the sale. These arrangements encourage bilateralism, impose unusual costs upon some Western exporters, and may increase the likelihood of market disruption.

II. Essential Facts

Countertrade arrangements are used by communist and some developing countries as a means to reduce net outflows of hard currency and to facilitate exports of their products without full marketing costs or efforts. They also enable these countries to attempt to balance trade on a bilateral basis.

Countertrade imposes on Western exporters added costs of marketing the compensation goods they take as payment. Small and medium sized companies are particularly disadvantaged. Because of the long-term commitments in major countertrade contracts involving commodities and the unpredictable behavior of world markets, future counterdeliveries may disrupt Western markets.

The US has no authority to restrict US companies from engaging in transactions involving countertrade, other than by possibly withholding Eximbank credits. Other OECD members have expressed concern over countertrade and last fall endorsed an OECD study relating to East-West trade that notes the economic distortions countertrade causes. The study concludes that Western governments should not adopt an attitude of benign neglect towards countertrade and recommends that countertrade be analyzed further. We should support proposals to focus greater attention on the implications of countertrade and to consider multilateral measures to discourage communist countries' countertrade demands and possibly limit official credits in support of countertrade deals. However, a US lead on adoption of active measures against countertrade may be resisted by other summit governments as a US attempt to obstruct their industrial and energy trade with the Soviets.

III. Talking Points

Criticism: Summit governments, although themselves more or less critical of countertrade, may view a hard US line on countertrade as an attempt to place limits on their industrial and energy trade.

Response:

- We are concerned that countertrade demands may increase bilateralism in international trade, may impose added costs on our companies, and in some cases, may prevent smaller and medium sized companies from engaging in trade.
- We believe it would be useful for Western governments to analyze further the effect of countertrade flows on markets, prices, and on our private sector.

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CLASSIFIED BY Frank Vargo-----

5/5/88

Drafted: Karen Jurew: ITA/IEP/EUR
5/6/82 377-4325

Cleared: JPaugh
FJVargo
R JWaldmann
LHolmer

Treasury - BBarreda
USTR - Morr
State - DKursch
Energy - Mazeaka
Defense - English

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STEEL TRADEI. ISSUE

By June 10, the U.S. Department of Commerce will announce, pursuant to statutory deadlines, preliminary decisions in 36 steel countervailing duty investigations, 19 of which involve EC producers.

II. ESSENTIAL FACTS

These investigations were begun in response to petitions filed by seven U.S. steelmakers in January. DOC has issued questionnaires to foreign steelmakers and governments from which it will calculate the amount of any net subsidies benefiting the imported merchandise. Import duties equal to the net subsidy become payable at the time of the June 10 determination, contingent on final subsidy and material injury determinations (due August 24 and October 8 respectively). Preliminary decisions in the 17 EC antidumping investigations filed concurrently with the subsidy complaints are required by August 9.

The EC is concerned that exports of affected steel products to the U.S. (\$1.2 billion in 1981, 3 percent of all U.S. imports from the EC) will be greatly diminished. While these exports accounted for only 3 percent of total EC steel production in 1980, the loss or redirection to the EC market of this production could exacerbate steel-related domestic economic and political difficulties, most notably in Belgium. Japan is satisfied with its steel export markets and seeks stability in world steel trade. It fears the disruption of world steel trade that might follow imposition of countervailing duties by the U.S.

We see EC subsidies, which maintain excess and inefficient capacity, at the heart of current world steel trade frictions. Twice before, in 1977 and 1980, the USG has worked out compromises that avoided the strict application of U.S. trade laws to EC steel imports; both times the compromise failed, most recently because of massive increases in EC steel imports. We now intend to complete the subsidy and antidumping investigations and, if warranted, impose duties as specified by U.S. law.

III. TALKING POINTS

Criticism: European steel exports to the United States have not exceeded traditional levels and are not injuring the U.S. steel producers. The USG should find some reasonable basis for dismissing the cases.

Response:

-- The Department of Commerce is handling the steel cases fairly, objectively, and in full accordance with our international obligations under the General Agreement on Tariffs and Trade (GATT).

-- Commerce's intention is to complete the investigations, identify which steel is being fairly traded and which is not, and impose duties to offset any injurious unfair dumping or subsidization. We are willing to listen to suggestions for settlement, but any settlement must be consistent with U.S. laws and the GATT.

Drafted: Mike Levine: ITA/TA/IA
5/5/82 377-3793

Cleared JPaugh
GHorlich
LBrady
LHolmer

Treasury - BBarreda
USTR - CBlum
State - PTyson/TO'Herron
Energy - Mazeaka
Defense - English
CEA - JBurnham

TRADE IN HIGH TECHNOLOGY

I. ISSUE

The United States is concerned that foreign government practices may adversely affect the competitive position of U.S. firms in U.S. and foreign markets. The United States has asked that this issue be placed on the agenda for the GATT Ministerial in November and that OECD work on high-technology trade and investment issues be expanded.

II. ESSENTIAL FACTS

Advanced technology spans a wide range of industries having in common "knowledge-intensive" bases derived from continued investment in research and development, and the aggressive application by these industries of innovations concerning new products and processes. In some countries, there are formal, coordinated government efforts employing a broad range of policy instruments which are designed to promote these industries in ways that may distort international trade.

III. TALKING POINTS

- Advanced technology will be a significant source of economic growth and productivity for all our economies in the 1980's if we work together to ensure that our governments adopt policies to promote competition and trade, and resist protectionism and other trade-distorting measures.

Foreign Criticism:

- The United States is the leading exporter of high-technology. Other countries perceive the need to involve their governments in support of their private sectors to develop hi-tech industries. High-technology trade problems are not unique and are generally addressed by the GATT. It is not entirely clear that problems affecting high-tech trade are distinctive enough to warrant a special allocation of resources for work programs in the GATT & the OECD.

U.S. Response:

- Pressure is already very strong in the United States to react against foreign trade barriers to U.S. exports that are perceived as unfair and inequitable. Sentiment exists to take steps to protect some U.S. high-technology industries from foreign competition. We must demonstrate that the international trading system can respond to the changing nature of international trade.

Drafted: Kay Thompson: ITA/TD/IP/OISP
5/5/82 377-4466

Cleared: MSearing
BMorris
Cprestowitz
LHolmer

Treasury - BBarreda/Brown
State - MTokola
USTR - SFalken
Defense - English
Energy - Mazeaka
CEA - JBurnham

OVERVIEW: HIGH TECHNOLOGY

I. U.S. OBJECTIVES AND INITIATIVES

Principal U.S. Objective

The principal U.S. objective is to achieve a political commitment to examine the growing problems affecting trade and investment in high-technology goods and services. It is strongly in the U.S. interest to ensure that the United States has access to the markets of our major trading partners and competitors as well as access to civilian technology. High-technology industry is the backbone of U.S. industrial development and industrial export potential.

Initiatives

The USG has proposed that high-technology trade problems be placed on the agenda for the GATT Ministerial in November, and that the Ministerial launch a work program in the GATT to identify barriers to high-technology trade in goods and services and determine specific steps needed to deal with these problems. A cable has been sent to U.S. embassies in GATT member countries asking posts to seek support for GATT discussion of this issue.

At the OECD Ministerial the United States will support the Secretary General's proposals for an OECD work program to review policies and practices that affect trade and investment in high-technology goods and services, and to prepare a coordinated industrial country position for the GATT review. We have already begun to discuss these issues and proposals with our industrialized trading partners, and can reinforce these efforts at the Summit.

II. BACKGROUND AND PRE-SUMMIT PREPARATION

Public recognition of the importance of advanced technology has led developed and newly industrializing nations of the world to devote increasing resources to these knowledge-intensive industries. USG activities in the area are primarily limited to military applications. In some countries, there are formal, coordinated government efforts employing a broad range of policy instruments which are designed to promote these industries. The effect of these policies may be to create distortions in international trade of high technology products and services. These distortions could lead to retardation of both aggregate domestic economic growth and the ability to adjust to increased imports in other sectors.

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III. OTHER COUNTRY OBJECTIVES AND STANCE ON U.S. OBJECTIVES

Japan and France have indicated interest in discussing high technology in multilateral fora. Many countries, developed and developing alike, consider the establishment of high-technology industries a matter of national economic and security policy. Some may perceive efforts by the USG to liberalize trade in high technology as contrary to their domestic economic and industrial growth policies.

France has circulated a draft paper on Technology, Economics, and Employment that reflects the priorities and policies of France's socialist government. The paper proposes a "technological new deal" that includes a coordinated international program of basic research, including North-South technological cooperation, and the standardization of data exchanges. It also proposes that technology be used to promote employment by establishing an international program of education and training in new technologies, an international research program on the problems of working conditions, and a process of harmonization of working conditions. The United States understands that President Mitterand is redrafting this paper and a new version may be available before the summit. The United States should see that the focus of the dialogue remains on trade and investment liberalization.

IV. DISCUSSION OF OBJECTIVES

Objective: Achieve political commitment to examine trade and investment in high-technology goods and services.

Talking Points:

- Advanced technology will be a significant source of economic growth and productivity for all our economies in the 1980s if we work together to ensure that our governments adopt policies to promote vitality and competition and resist protectionism and other trade-distorting measures.
- The United States has proposed that the GATT Ministerial address this issue in its November meeting with the goal of adopting a program to identify and recommend solutions for problems affecting trade in the high-technology sector. Your active support will be necessary to make this effort a success.

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- The OECD should have a lead role in assisting us to develop a program to promote the healthy growth of high-technology industry. The USG supports an OECD work program along the lines suggested by the Secretary General. An OECD program will provide the necessary support as we move toward a GATT work program.
- In order to provide leadership and support for trade liberalization initiatives I suggest that we include in the Communique of this meeting a statement indicating the importance we attach to maintaining an open trade environment for growth in the high-technology sector.
- (If Raised) -- The United States questions whether the options raised in the French paper on Technology, Economics, and Employment are priority issues that will best promote the growth and development of high-technology industry. These proposals are very complex in their implications and I suggest they be studied in appropriate OECD Committees.

Drafted: Kay Thompson: ITA/TD/IP/OISP
5/5/82 377-4466

Cleared: MSearing
BMorris
Cprestowitz
LHolmer

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